

# THE AMERICAN FINANCIAL CRISIS

## How Can Confidence Be Restored?

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### Introduction

It takes many years to create a financial crisis as serious as the one we face today. In addition, it takes many governmental policy failures...and many political failures...and many corporate failures...and many consumer failures. The financial crisis we face today has been properly characterized as the 'perfect storm' in the credit and mortgage markets of the American economy. It's hard to believe, but failure is so pervasive that the American public doesn't know where to start in trying to assign blame...or in finding a solution.

### Approach 1: "Show Me the Money!"

#### **Provide a Diversified Portfolio of Debt Relief with Public Money**

*WASHINGTON (Reuters) - U.S. Treasury Secretary Henry Paulson on Friday urged Congress to back a bold plan to attack financial market weakness by buying up risky loans and said this was the best long-run hope to save taxpayer's money. "We must now take further, decisive action to fundamentally and comprehensively address the root cause of our financial system's stresses," Paulson said in a statement.*

*"The federal government must implement a program to remove these illiquid assets that are weighing down our financial institutions and threatening our economy," he said in prepared remarks, released to the media prior to delivery.*

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#### What Can Be Done?

- Immediately pass legislation proposed by the President, the Treasury Secretary, and the Chairman of the Federal Reserve, providing \$700 billion for the purchase of 'bad assets' by the government that threaten the health and survival of the American economy
- Spread this support across a wide diversity of institutions, large and small, in all 50 states to dramatically increase confidence in the American economy
- Assist working families in refinancing home loans to sustainable fixed-rates that replace adjustable rate mortgages where foreclosure is imminent or inevitable at the discretion of bankruptcy judges

People Who Agree with this Approach Say....

- This is the biggest financial crisis since the Great Depression...we need action very soon to make credit available again for businesses and for home buyers, and that will take so much money the government alone is capable of the task
- Financial markets in the United States and around the world are looking for some sign that the U.S. government is ready and willing to intervene to safeguard the global financial economy

People Who Disagree with this Approach Say....

- Massive debt relief with tax-payer money is socialism...no subsidies should ever be given to the corporations that caused the problem in the first place

A Possible Tradeoff Is....

- I'd support the President's proposal, EVEN IF my personal taxes had to increase to pay for it

## **Approach 2: "Loose the Hounds"**

### **Encourage Corporations to Provide Private Debt Relief**

The American economy has enough money already to provide financial relief by purchasing the assets and debts of companies that fail. In extraordinary times, these normal methods can be accelerated through the relaxing of tax and regulatory limits on investment and corporate takeovers. If domestic and international corporations are released from policies and laws that limit these normal business practices, the free market system will absorb the losses and reorganize failed businesses into successful enterprises.

What Can Be Done?

- Draw in private, corporate money for debt relief by having the government loosening tax and regulatory barriers
- Add funds to the Federal Deposit Insurance Corporation (FDIC) to cover all insured accounts, so no one loses any money in banks and other financial institutions that may fail
- Set limits on 'golden parachutes' for exiting CEOs of failed corporations to make buy-outs of struggling companies more attractive

People Who Agree with this Approach Say....

- Taxpayers don't need to bailout corporate America...they simply need to let companies reorganize themselves through normal market methods
- It's just wrong for CEOs to be rewarded as their company is failing

People Who Disagree with this Approach Say....

- Loosening regulations on Wall Street helped to create this problem...don't make it easier for more corporations to get so big that they are then 'too big to let fail', requiring another heroic rescue

A Possible Tradeoff Is....

- I'd trust corporations to do the job, EVEN IF prices of many products increased to pay for it

## **Approach 3: “The Truth Will Set You Free”**

### **Renew Public Trust with Transparency and 21<sup>st</sup> Century Regulations**

Too many financial institutions have hidden their actual condition from shareholders and the public, even after the Enron crisis where accounting practices were supposed to be reformed. In addition, Depression-era regulations must be revised to stabilize markets, catching up to complex 21<sup>st</sup> century financial ‘derivatives.’

What Can Be Done?

- Require financial transparency that everyone can understand by requiring all corporations to make reports using cash accounting methods...simply reporting revenue, expenses, reserve accounts and dividends rather than hiding assets and liabilities in deceptive descriptions of ‘earnings’
- Create corporate regulations for size and influence...any firm that’s too big to let fail is too big!
- Put responsibility on corporations to explain why new financial ‘instruments’ serve the public good

People Who Agree with this Approach Say....

- When investors know the truth about corporate decisions, they will exercise good civic judgment
- When regulators know the truth about corporate decisions, they will require timely accountability

People Who Disagree with this Approach Say....

- ‘You can’t handle the truth!’ Investors don’t want to know the truth...they want dividends!

A Possible Tradeoff Is....

- I’d support new financial regulations, EVEN IF they limited the rate of growth for the economy